Missouri Division of Finance

UPDATE

A Report of Missouri State Chartered Financial Institutions

Issue 99-1 January 1999

From . . . Commissioner Earl L. Manning

As a year ends and another begins, I have some random thoughts:

- The highlight of the Division's year was its reaccreditation by the Conference of State Bank Supervisors (CSBS). The reaccreditation letter stated that the CSBS endorsement identified banking departments which serve the citizens of their state by operating a capable and professional regulatory program which, of course, has always been the aim of the Division;

- It was a big year in state legislation as two "Christmas tree" bills, Senate Bill 792 and Senate Bills 852 & 913, were both enacted and brought with them numerous changes in the laws related to banking. The latter bill, effective January 1, 1999, eliminated the need for directors' qualifying shares and, under narrow circumstances, allowed the cancellation of the annual shareholders' meeting. It also bolstered the integrity of the examination process.

- The Division received the 1998 Governor's Award for Quality and Productivity in recognition of its program to reduce the indirect costs associated with bank examination. This was doubly gratifying as, in addition to being recognized for achievement, we clearly reduced such costs which has long been a goal;

- In 1998, we and the federal bank regulatory agencies implemented GENESYS, a new system of preparing examination reports which utilizes computer databases to produce reports that will be of increased value to both bankers and regulators; this program has the added benefit of making the state and federal reports more consistent with one another.

- New state bank charters continued to be sought and approved suggesting the strength of our Missouri economy and the entrepreneurial spirit of the banking community.

GENERAL USURY

Section 408.030 provides that the Director of Finance shall declare the quarterly market rate of interest each quarter, post it in accordance with Section 361.110 and publish it in appropriate publications. Said quarterly market rate for the period January 1, 1999 through March 31, 1999 shall be 8.3%; as an alternative, 10% may be used.

In This Issue:

NEW BANK EXAMINATION REPORT FORMAT

Some bankers may have noticed, upon receipt of recent examination reports, that the report format has changed dramatically. The Division of Finance has adopted the format used by the FDIC. The gradual phasing in of the new report was initiated in the Springfield district with bank examinations beginning in November 1998. Other districts around the state are following this lead until, beginning in January 1999, all reports will be processed using the new system.

The new report is processed with a newly released software program, jointly developed by the FDIC, Federal Reserve, and the Conference of State Bank Supervisors. The program, known as GENESYS (Gen<u>eral</u> Examination System), is an integrated software application for recording financial institution data and creating an examination report. The system provides our examiners, at their fingertips in laptop computers, with most of the information needed in the examination process. A benefit to banks is the greater uniformity of report format used by the regulators. Some differences will remain, but the basic format will be the same once GENESYS is fully implemented.

In the coming months, bankers will undoubtedly hear our examiners talking about GENESYS. We encourage you to ask questions about the program during examinations. Examiners will be glad to demonstrate some of the processing and analytical capabilities available to them for the evaluation of the safety and soundness of your institutions. We also ask for you to give us your opinions about the report change. We are committed to using GENESYS but, more important, we are committed to providing you with the products and services desired.

TRENDS IN NEW CHARTERS

Everyone is aware that the number of banks has dwindled as mergers and consolidations have taken their tolls. However, it should be noted that there is something of a boom in the issuance of brand new bank charters, too.

From 1993 to date, the Division of Finance has issued 15 new state bank charters and there are three applications pending at the time of this writing. Division records indicate that this sort of chartering activity has been matched only once in modern times (since World War II) and that was the period from 1986 through 1988 when 13 new charters were issued.

The geographic concentration of new charters has changed. The thirteen charters issued in the late eighties included ten in the St. Louis metro area. Eight of the fifteen charters issued since 1993 have been in the Springfield MSA (Greene, Christian and Webster Counties); only two of the remaining charters were issued in the St. Louis area.

The new charters have done extremely well in both loan and deposit growth. Of the fifteen new charters since 1993, thirteen (or 87%) exceeded their first year loan growth projections within an average of only four months. Eleven (or 73%) exceeded their first year deposit growth projections within an average of only seven months.

Y2K TESTING

The Critical Phase of Year 2000 Readiness

Regulatory Phase II assessments of each institution's progress in testing mission critical computer systems and contingency plans are in full swing. At each assessment, examiners determine if the institution has met or will meet the key milestone dates for validating systems.

By the December 31, 1998 milestone, each institution was expected to:

- Have a written testing plan and strategy,
- Have completed testing on internal mission critical systems,
- Be in the process of testing mission critical systems with service providers.

The next milestone: March 31, 1999. Testing and validation of mission critical systems purchased from providers should be complete and testing with external third parties in process.

Most banks' testing strategies reviewed have been satisfactory. Some deficiencies have cropped up and we encourage managing officers to double-check for needed enhancements.

Testing Critical Dates – Thirteen critical dates to test were listed in the FFIEC publication of April 10, 1998 entitled "Guidance Concerning Testing for Year 2000 Readiness". A particular application may not include all those dates, but, documentation should be maintained to show which dates were tested, and the rationale for not testing listed dates.

Test Scoping – Ensure the scope of testing activities for each mission critical application includes all accounts, transactions, and calculations for the application. This is needed to validate the test. Maintain documentation of your scope and results.

Testing Hardware – Some institutions have focused on testing core application software, but did not include coverage of the actual hardware and respective operating system. The manufacturer can provide testing guidance.

Test Replaced Mission Critical Items – Don't forget to include in your testing plans a process to test upgraded or new hardware and software.

Independent Review of Testing – A qualified third party (not directly involved in the institution's Y2K project) should check the testing for effectiveness and integrity.

Management is urged to compare its plan to the above items and make adjustments where necessary. An excellent reference is Section 3 of the FFIEC's Year 2000 Phase II Workprogram which has been provided to all financial institutions and available on the FFIEC's website: www.ffiec.gov/y2k.

NEW TRUST EXAMINATION RATING SYSTEM

Beginning January 1999, the Division of Finance will implement the revised Uniform Interagency Trust Rating System recently adopted by the Federal Financial Institutions Examination Council. The rating system will be used in all bank trust departments and non-deposit trust company fiduciary examinations.

Commissioner Manning endorses the updated rating system, particularly the steps to bring the system more in line with the rating definitions used in the CAMELS ratings, the emphasis on risk management, and the modifications to the Earnings component rating. This is the first revision to the rating system since it was initially adopted in 1978.

A brief summary of the changes:

- Realigns the trust rating system to conform to the language and tone of the Uniform Financial Institutions Rating System, commonly referred to as the CAMELS rating.

- Reduces the component rating to five categories: Management; Operations, Internal Controls and Auditing; Earnings; Compliance; and Asset Management. The prior rating components of Account Administration and Conflicts of Interest have been combined into the new Compliance category.

- Increases emphasis on risk management processes in each rating component, particularly the Management category.

- Revises the evaluation of the Earnings component rating. While fiduciary earnings will be analyzed at each institution, a rating will only be required for banks with more than $100 million in total trust assets. An alternative rating standard is provided for earnings in trust departments with less than $100 million in trust assets. A rating will continue to be assigned for each non-deposit trust company.

- Allows for a waiver for rating the Asset Management component for financial institutions that do not manage fiduciary accounts or provide advice on any fiduciary account assets.

Examiners and trust management will take a little time to become accustomed to the new rating system, but we believe the changes are positive. Division of Finance examiners will continue the longstanding practice of disclosing preliminary ratings to managing officers and boards of directors at the close of each trust examination. And, as usual, the final ratings will continue to be included with the trust examination report addressed to the board of directors.

AN END TO DIRECTORS' QUALIFYING SHARES - -

Missouri banking law has been amended by SBs 852 & 913 so that, effective January 1, 1999, a bank director need not own stock in the bank or in the bank's holding company. Therefore, the oaths of office required by Section 362.250.1 will no longer include language concerning qualifying shares. A sample form would be as follows:

OATH OF DIRECTOR

STATE OF MISSOURI)
) ss.
COUNTY OF ________)

__________(Bank or Trust Company)__________

__________(Town or City), Missouri__________

(______________________________) to me personally known, being by me sworn, upon his/her oath doth depose and say:

I will so far as the duties devolve upon me, diligently and honestly administer the affairs of the above bank (or trust company), and will not knowingly violate, or willingly permit to be violated any of the provisions of the law applicable to such bank (or trust company).

____
(Signature of Director)

Subscribed and sworn to before me this __________ day of ____________, ______.

Witness my hand and notarial seal. My commission expires ___________, day of ________, ______.

____
Notary Public

Instructions – Such oath shall be subscribed by the director making it, and certified by an officer authorized by law to administer oaths. The subscribed oath shall be transmitted to the Commissioner, and the fact of such oath having been made and filed with the officers of the bank shall be noted on the records of the acts of the directors. A failure to comply with this provision within the thirty days shall work a forfeiture of position. This form may be adjusted to include more than one director.